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CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER
AUDITS DIVISIONEd Harrington
ControllerMonique Zmuda
Deputy Controller

June 23, 2003

Audit Number 02037

DOCUMENTS DEPT.

Mr. John Martin, Airport Director
San Francisco Airport Commission
San Francisco International Airport
San Francisco, CA 94128

SEP 15 2003

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PUBLIC LIBRARYSubject: *Review of Host's Independent Auditors' Report for Host North Terminal Hub*

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April 1, 2001, through March 31, 2002
\$1,360,122

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REFERENCE BOOK

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adequate and verified that the revenues reported by Host to
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submitted to the Airport for the period April 1, 2001, through
gross revenues of \$4,171,807 and paid \$1,360,122 in rent to
. To obtain assurance that the audit was adequate, we
and partner about their audit procedures, and reviewed
found that the independent auditors' testing was reasonable
s revenues were, in all material respects, fairly reported. As
not conducting a separate concession audit of Host's North

Terminal Hub operations.

We also reviewed the agreed-upon procedures report submitted to the Airport by its
independent auditors for the same audit period. This report summarizes and explains the
differences between the audited Statement of Gross Revenues by month and the unaudited
monthly statements forwarded by Host to the Airport. The report indicates that the gross
revenues Host reported to the Airport did not always agree with the gross revenues stated in
the independent auditors' report.

Host's gross revenues consist of temporary sales conducted in a retail space under
construction and sales from another retail space that Host shares with its sublessees.
According to the lease between Host and the City and County of San Francisco (City), Host
agreed to pay rent of 12 percent of gross revenues from all sales in the space under

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Subject: Review of Independent Auditors' Report for Host North Terminal Hub

Reporting Period: April 1, 2001, through March 31, 2002
Rent Paid: \$1,360,122

Dear Mr. Martin:

The Airport Commission (Airport) requires Host International Inc. (Host) to have an annual independent audit conducted of its San Francisco International Airport North Terminal Hub location revenues. To assess whether we should conduct a separate concession audit of Host's North Terminal Hub, we performed steps to assure us that the annual independent audit was adequate and verified that the revenues reported by Host to the Airport agreed with the revenues reported by Host's independent auditors.

We reviewed the audit report submitted to the Airport for the period April 1, 2001, through March 31, 2002. Host reported gross revenues of \$4,171,807 and paid \$1,360,122 in rent to the Airport for the audit period. To obtain assurance that the audit was adequate, we interviewed the audit manager and partner about their audit procedures, and reviewed selected audit workpapers. We found that the independent auditors' testing was reasonable to assure the Airport that Host's revenues were, in all material respects, fairly reported. As a result of this review, we are not conducting a separate concession audit of Host's North Terminal Hub operations.

We also reviewed the agreed-upon procedures report submitted to the Airport by its independent auditors for the same audit period. This report summarizes and explains the differences between the audited Statement of Gross Revenues by month and the unaudited monthly statements forwarded by Host to the Airport. The report indicates that the gross revenues Host reported to the Airport did not always agree with the gross revenues stated in the independent auditors' report.

Host's gross revenues consist of temporary sales conducted in a retail space under construction and sales from another retail space that Host shares with its sublessees. According to the lease between Host and the City and County of San Francisco (City), Host agreed to pay rent of 12 percent of gross revenues from all sales in the space under

John Martin
April 24, 2003
Page 2

construction. Host also agreed to pay the greater of the pro-rated minimum annual guarantee or percentage rent of 12 percent to 16 percent of gross revenues, including sublessee revenues. The percentage rent depended on the achieved levels of gross revenues. However, after the events of September 11, 2001, the Airport required only the payment of percentage rent. For the period from September 11, 2001, through March 31, 2002, because Host had achieved the highest level of gross revenues, it paid rent at the highest tier of percentage rent, or 16 percent of gross revenues.

The agreed-upon procedures report stated that during the audit period, Host underreported its temporary revenues to the Airport by \$52,974. Since the percentage rent due is 12 percent of that amount, we calculated that Host owes the Airport an additional \$6,357 in rent. Further, the report stated that Host overreported its sublessee revenues by \$4,780. Since the percentage rent is 16 percent, Host overpaid its rent by \$765. We recommend that the Airport bill and collect from Host the net amount of \$5,592.

Please call me at (415) 554-7654, or Edvida Moore at (415) 554-7648, if we can be of further assistance.

Sincerely,



Elisa Sullivan
Audit Manager

cc: Leo Fermin, Acting Airport Deputy Director of Business & Finance
Lilia V. Avendano, Airport Fiscal Officer
Dave Pfeiffer, Airport Associate Deputy Director of Revenue Development
Teresa Rivor, Airport Assistant Deputy Director of Concessions
Tomasi Toki, Airport Principal Property Manager
Lynn Yazzolino, General Manager of Retail Sales, Host Marriott Services
Paul Argy, Partner, Argy, Wiltse & Robinson, P.C.
Noriaki Hirasuna, Controller's Audits Director



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